

CF04

Basic Accounting

10 APRIL 2003

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions
3. Number of questions to be answered : All five (5) questions
4. Show details of workings where appropriate. Silent, non-programmable calculators may be used.
5. Mathematical tables are provided in this question paper.
6. Begin each answer to a new question on a fresh page.
7. Answer **all** questions in **English**.

ANSWER ALL FIVE (5) QUESTIONS

1. The following information was extracted from the books of Soo Wah Sdn Bhd as at 31 December 2002:

	RM
Freehold land, at cost	2,000,000
Premises, at cost	1,200,000
Accumulated depreciation for premises as at 31 December 2002	250,000
Machinery	3,600,000
Accumulated depreciation for machinery as at 31 December 2002	380,000
Motor vehicles	650,000
Accumulated depreciation for motor vehicles as at 31 December 2002	130,000
Furniture & fittings	350,000
Accumulated depreciation for furniture & fittings as at 31 December 2002	60,000
Stocks as at 31 December 2002	1,645,000
Creditors	1,525,000
Debtors	2,800,000
Cash in bank	1,380,000
Bank loan	2,000,000
Ordinary share capital @ RM1 each	2,200,000
Share premium account	600,000
Retained profit as at 1 January 2002	1,700,000
Draft net profit before taxation for the year ended 31 December 2002	4,780,000

Before finalising the accounts for the year ended 31 December 2002, the directors of Soo Wah Sdn Bhd agreed that the following information and decisions are to be taken into account:

- Freehold land should be re-valued at its market value of RM4,500,000 and to be included in the accounts at this figure.
- Certain stock items costing RM100,000 included at cost in the stock valuation at 31 December 2002 are now considered obsolete. The directors instructed these stock items to be written off in this year's accounts.
- Directors' remuneration of RM78,000 was not included in the preparation of the draft profit and loss account.
- To provide for corporation tax of RM330,000.
- To transfer RM280,000 to general reserve.
- The proposed final ordinary dividend is RM0.25 per ordinary share.

Required:

Taking into account the given information,

- (a) calculate the adjusted net profit before taxation. [3]
- (b) prepare the adjusted Profit and Loss Appropriation Account for the year ended 31 December 2002. [4]
- (c) prepare the Balance Sheet as at 31 December 2002. [16]

(Total:23 marks)

2. At 1 January 2000, Armshyeld Sdn Bhd ("Armshyeld") owned motor vehicles costing RM500,000 with an accumulated depreciation of RM110,000.

On 10 March 2000, Armshyeld purchased **three** new motor vehicles at RM150,000 per unit and financed the purchases by trading in **one** old motor vehicle for RM45,000 and the balance through a bank loan.

The old motor vehicle cost RM89,000 and had an accumulated depreciation of RM52,545.

Armshyeld depreciates the motor vehicles at the rate of 20% per annum on a reducing balance method, based on the assets held at the end of each year. Armshyeld's financial year ends on 31 December.

Required:

- (a) Show the following accounts of Armshyeld for the financial years ended 31 December 2000, 2001 and 2002:
- (i) Motor vehicles account. [6]
 - (ii) Provision for depreciation on motor vehicles account. [7]
- (b) Show the fixed assets disposal account for the financial year ended 31 December 2000. [4]
(Total:17 marks)

3. For each of the following questions, there are **four** possible answers (A, B, C and D). Select the **best** answer.

- (a) Accounting reports assume that the business enterprise is going to continue operating with no intention of winding up in the foreseeable future.

Which of the following accounting concepts is being applied above?

- A. Prudence.
- B. Accruals.
- C. Materiality.
- D. Going concern. [2]

- (b) An asset purchased four years ago costing RM31,000 is still recorded at RM31,000 although its replacement cost is RM40,000.

Which of the following accounting concepts or convention is being applied above?

- A. Accruals.
- B. Historical cost.
- C. Materiality.
- D. Going concern. [2]

- (c) Which of the following will improve a company's liquidity position?

- A. Rights issue of shares to shareholders.
- B. Purchasing of fixed assets.
- C. Increasing depreciation on fixed assets.
- D. Increasing provision for bad debts. [2]

- (d) Toyz Sdn Bhd manufactured a new toy that costs RM80 per unit and expects to make a gross profit margin of 60%.

What is the gross profit of this product?

- A. RM30.
- B. RM48.
- C. RM120.
- D. RM133. [2]

(e) What is the simple interest earned (to the nearest Ringgit) on RM5,000 in a savings account at 4.5% per annum for **three** years?

- A. RM630.
- B. RM648.
- C. RM675.
- D. RM696.

[2]

(f) Mr Tan invested RM35,000 on a fixed bank deposit for **one** month at the interest rate of 4.35% per annum.

What is the interest earned (to the nearest Ringgit)?

- A. RM125.
- B. RM127.
- C. RM130.
- D. RM137.

[2]

(g) Which of the following is not an “intangible asset”?

- A. Goodwill.
- B. Franchise.
- C. Mineral deposits.
- D. Patent.

[2]

(h) Which of the following is shown in the Trading Account?

- A. Carriage outwards.
- B. Carriage inwards.
- C. Discount allowed.
- D. Discount received.

[2]

(i) On 1 May 2003, Tyre Trading replaced all the tyres of the car used by the company's managing director. The cost of the new tyres should be:

- A. debited to the motor vehicles account.
- B. debited to the motor vehicles repair and maintenance account.
- C. debited to the provision for depreciation account.
- D. debited to the disposal account.

[2]

(j) It is Company Jojo's policy to provide for bad debts at a rate of 5% on the debtors' balance at the end of its financial year. Given the following information, what is the increase or decrease in the provision for bad debts in 2002?

	Debtors	Provision for bad debts
31 December 2001	RM24,000	RM1,200
31 December 2002	RM34,000	?

- A. Increase in provision of RM1,700.
- B. Increase in provision of RM500.
- C. Decrease in provision of RM1,200.
- D. Decrease in provision of RM500.

[2]

(Total:20 marks)

4. The following figures were projected by Sinaran Trading:

	January (RM)	February (RM)	March (RM)	April (RM)
Cash sales	192,000	126,000	108,000	135,000
Credit sales	1,710,000	1,140,000	960,000	1,200,000
Purchases for resale	1,320,000	840,000	780,000	480,000
Salaries	39,900	42,000	35,700	37,200
Overhead	240,000	225,000	240,000	210,000

The following additional information were also given:

- 2.5% of all sales on credit are expected to become bad debts. Receipts from credit customers are due in the month following sales.
- Sinaran Trading pays its creditors in the month following purchase and receives a cash discount of 5%.
- Salaries are paid in the month in which they are incurred.
- Payments for overhead expenses are made in the month following the month in which expenses are incurred. The above overhead budget included RM42,000 per month for depreciation.
- Sinaran Trading planned to purchase **one** new motor vehicle in March with RM10,000 cash and RM75,000 bank loan.
- Bank interest due in March is RM1,100 while in April is RM1,000.
- The bank balance at the beginning of February is expected to be RM330,000.

Required:

Prepare the cash budget for the months of February, March and April, showing the bank balances at the end of each month. (Total:18 marks)

5. The following information relates to **two** different companies in the textile industry for the financial year ended 31 December 2002:

	Arc Mac Sdn Bhd	Pa Ling Sdn Bhd
	(RM'000)	(RM'000)
Profit & loss account (extract):		
Turnover	55,000	110,000
Cost of goods sold	31,500	54,000
Expenses	8,500	9,100
Profit before tax	15,000	46,900
Corporation tax	2,700	5,200
Dividends	2,100	2,300
Balance sheet (extract):		
Fixed assets	46,500	51,000
Current assets		
- Stock	7,800	15,100
- Debtors	8,000	15,700
- Bank	-	4,000
	15,800	34,800
Current liabilities		
- Creditors	7,700	13,900
- Taxation	2,700	2,900
- Dividends	2,100	2,300
- Bank overdraft	230	
	12,730	19,100
Ordinary share capital – paid up	30,000	30,000
General reserve	7,200	7,200
Profit & loss account	11,400	40,800

- (a) Calculate the following ratios for both companies:
- (i) Current ratio [2]
 - (ii) Acid test ratio [3]
 - (iii) Debtors' collection period [3]
 - (iv) Gross profit margin [3]
 - (v) Net profit margin [3]
 - (vi) Return on capital employed [4]
- (b) Briefly compare and comment on the acid test ratio of both companies. [4]

(Total:22 marks)

- END OF QUESTION PAPER -

OUTLINE ANSWERS

Question 1

Although most candidates were able to score half the total allocated marks, there were still some candidates who were unable to differentiate between Profit & Loss items and Balance Sheet items. Many were also unable to make adjustments to the Profit & Loss account or calculate the adjusted net profit before taxation.

1. (a)

		RM
Draft Net Profit		4,780,000
<i>Less:</i> Obsolete stock written off	100,000	
Directors' remuneration	78,000	178,000
Net Profit (finalised)		<u>4,602,000</u>

(b)

Soo Wah Sdn Bhd

Profit and Loss Appropriation Account for the year ended 31 December 2002

	RM	RM
Net Profit before taxation		4,602,000
<i>Less:</i> Corporation tax		<u>330,000</u>
Net Profit after taxation		4,272,000
<i>Add:</i> Retained profits as at 1 January 2002		<u>1,700,000</u>
		5,972,000
<i>Less:</i> Transfer to general reserve	280,000	
Final proposed ordinary dividend	550,000	
		<u>830,000</u>
Retained profit c/fwd to next year		<u>5,142,000</u>

(c)

Balance Sheet as at 31 December 2002

	RM Cost/ Revaluation	RM Accumulated Depreciation	RM Net Book Value
<u>Fixed Assets</u>			
Freehold Land at revaluation	4,500,000		4,500,000
Premises	1,200,000	250,000	950,000
Machinery	3,600,000	380,000	3,220,000
Motor Vehicles	650,000	130,000	520,000
Furniture & Fittings	350,000	60,000	290,000
	<u>10,300,000</u>	<u>820,000</u>	<u>9,480,000</u>
 <u>Current Assets</u>			
Stock		1,545,000	
Debtors		2,800,000	
Cash in Bank		<u>1,380,000</u>	
		5,725,000	
 <u>Current Liabilities</u>			
Creditors	1,525,000		
Accruals (78000+330000+550000)	<u>958,000</u>		
		<u>2,483,000</u>	
Net Current Assets			<u>3,242,000</u>
			<u>12,722,000</u>
 Financed by:			
Ordinary Share Capital			2,200,000
 <u>Reserves</u>			
Revaluation Reserve		2,500,000	
Share Premium		600,000	
General Reserve		280,000	
Retained Profits		<u>5,142,000</u>	
			<u>8,522,000</u>
			10,722,000
 <u>Long Term Liability</u>			
Bank Loan			<u>2,000,000</u>
			<u>12,722,000</u>

Question 2

Many candidates seemed unprepared for this type of question on provision for depreciation and disposal of fixed assets accounts. They could not compute the depreciation charges accurately, thus losing valuable marks.

2. (a) (i)

Motor Vehicles Account

2000			RM	2000			RM
1-Jan	Balance b/d		500,000	10-Mar	Fixed asset disposal a/c		89,000
10-Mar	Bank loan		405,000	31-Dec	Balance c/d		861,000
	Fixed asset disposal a/c		45,000				
			<u>950,000</u>				<u>950,000</u>
2001				2001			
1-Jan	Balance b/d		861,000	31-Dec	Balance c/d		861,000
2002				2002			
1-Jan	Balance b/d		861,000	31-Dec	Balance c/d		861,000
2003				2003			
1-Jan	Balance b/d		861,000				

(a) (ii)

Provision for Depreciation - Motor Vehicles Account

2000			RM	2000			RM
3-Mar	Fixed asset disposal a/c		52,545	1-Jan	Balance b/d		110,000
31-Dec	Balance c/d		218,164	31-Dec	Profit & loss a/c		160,709
			<u>270,709</u>				<u>270,709</u>
2001				2001			
31-Dec	Balance c/d		346,731	1-Jan	Balance b/d		218,164
			<u>346,731</u>	31-Dec	Profit & loss a/c		128,567
2002				2002			
31-Dec	Balance c/d		449,585	1-Jan	Balance b/d		346,731
			<u>449,585</u>	31-Dec	Profit & loss a/c		102,854
2003				2003			
				1-Jan	Balance b/d		449,585

(b)

Fixed Assets Disposal Account

2000			2000		
10-Mar	Motor vehicles	89,000	10-Mar	Provision for depreciation	52,545
31-Dec	Profit & loss a/c	8,545		Motor vehicles (trade-in)	45,000
		<u>97,545</u>			<u>97,545</u>

Question 3

Candidates performed well in this section on multiple-choice questions, which tested their knowledge of various accounting concepts and principles.

3. (a) D
(b) B
(c) A
(d) C
(e) C
(f) B
(g) C
(h) B
(i) B
(j) B

Question 4

Candidates either obtained high marks or fared badly in this question as it really comes down to their understanding of the concept. Notwithstanding this, when compared with previous sittings it was observed that an increased number of candidates were able to answer this type of question well.

4.

Cash Budget for the months of February, March and April

	February RM	March RM	April RM
<u>Receipts</u>			
Cash Sales	126,000	108,000	135,000
Debtors	1,667,250	1,111,500	936,000
	1,793,250	1,219,500	1,071,000
<u>Payments</u>			
Creditors	1,254,000	798,000	741,000
Salaries	42,000	35,700	37,200
Overhead	198,000	183,000	198,000
Motor Vehicle	-	10,000	-
Bank Interest	-	1,100	1,000
	1,494,000	1,027,800	977,200
Surplus/ (Deficit)	299,250	191,700	93,800
Opening Balance	330,000	629,250	820,950
Closing Balance	629,250	820,950	914,750

Question 5

Many candidates were able to compute the ratios, although there were some candidates who could not do even the basic computation of liquidity and profitability ratios.

5. (a)

		Arc Mac Sdn Bhd	Pa Ling Sdn Bhd
(i)	Current Ratio =	$\frac{15,800}{12,730}$ = 1.24 : 1	$\frac{34,800}{19,100}$ = 1.82 : 1
(ii)	Acid Test Ratio =	$\frac{15,800 - 7,800}{12,730}$ = 0.63 : 1	$\frac{34,800 - 15,100}{19,100}$ = 1.03 : 1
(iii)	Debtors Collection = Period	$\frac{8,000 \times 365}{55,000}$ = 53 days	$\frac{15,700 \times 365}{110,000}$ = 52 days
(iv)	Gross Profit = Margin	$\frac{23,500 \times 100\%}{55,000}$ = 42.7%	$\frac{56,000 \times 100\%}{110,000}$ = 50.9%
(v)	Net Profit = Margin	$\frac{15,000 \times 100\%}{55,000}$ = 27.3%	$\frac{46,900 \times 100\%}{110,000}$ = 42.6%
(vi)	ROCE =	$\frac{15,000 \times 100\%}{30,000+7,200+11,400}$ $= \frac{15,000 \times 100}{48,600}$ = 30.9%	$\frac{46,900 \times 100\%}{30,000+7,200+40,800}$ $= \frac{46,900 \times 100}{78,000}$ = 60.1%

- (b) The liquidity position of Pa Ling Sdn Bhd is better than Arc Mac Sdn Bhd. Arc Mac Sdn Bhd would have problem meeting its liabilities when they fall due as its acid test ratio is weak at 0.63:1 compared to Pa Ling Sdn Bhd's ratio of 1.03:1. Arc Mac Sdn Bhd's cash position is negative with a high bank overdraft and stock level, which is probably the cause of its weak liquidity position.